What Kind of Economics Should We Teach?

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1. Introduction
2. We have a problem!
3. Testing models?
4. Learning to question assumptions
5. The hole in the middle
6. Conclusion

1. Introduction

• We do *not* argue for the removal of mathematics from economics.

• A major problem is the domination of technique over substance.

• A focus on mathematical elegance has diverted economists from real-world phenomena.

• Students are not trained adequately to discriminate between different assumptions, theories or models.

2. We have a problem!

1988 **AEA Commission**: “graduate programs may be turning out a generation with too many *idiot savants* skilled in technique but innocent of real economic issues”

Alan Blinder (1990): “students and faculty ... obsessed with technique over substance ... exams ... tested mathematical puzzle-solving ability, not substantive knowledge about economics”

2. We have a problem!

Only 3 per cent of graduate students on top US economics programmes saw "having a thorough knowledge of the economy" as important.

But 57 per cent believed that "excellence in mathematics" was very important (**Klamer** and **Colander** 1990).

2. We have a problem!

Mark Blaug (1997):

"Modern economics is sick. ... Economists have converted the subject into a sort of social mathematics in which analytical rigour is everything and practical relevance is nothing."

2. We have a problem!

Nobel Laureate **Ronald Coase** (1997)
"Existing economics is a theoretical system which floats in the air and which bears little relation to what happens in the real world."

Nobel Laureate **Milton Friedman** (1999)
"economics has become increasingly an arcane branch of mathematics rather than dealing with real economic problems."

2. We have a problem!

Nobel Laureate **Paul Krugman** (2009):

"… predictive failure was the least of the field's problems. More important was the profession's blindness to the very possibility of catastrophic failures in a market economy ... the economics profession went astray because economists … mistook beauty, clad in impressive-looking mathematics, for truth"

3. Testing Models?

(How) Do We Test Our Models?

Nobel Laureate **Wassily Leontief** (1982) found that 50% of *American Economic Review* articles had models but no data.

E. Ray Canterbery and **Robert J. Burkhardt** (1983) found that only 3 out of 542 empirical articles in top economics journals attempted to falsify the proposed hypotheses.

3. Testing Models?

Daniel B. Klein and Pedro P. Romero (2007):

– Out of 66 articles in the 2004 volume of *JET*, 27 failed to define their real-world object of analysis.

– Only 8 described what their theory is about and attempted to explain the merit and importance of that theory.

3. Testing Models?

Knockout empirical tests are rare, and in principle difficult (**Boland** 1989).

In choosing theories or assumptions, econometrics cannot do all of the work.

Complexity inhibits prediction.

Science is principally about *causal explanation.*

4. Learning to question assumptions

Additional skills are needed to adjudicate between theories.

Students need training in the philosophy of science.

Importance of *conceptual* precision.

Learning from the history of economics.

4. Learning to question assumptions

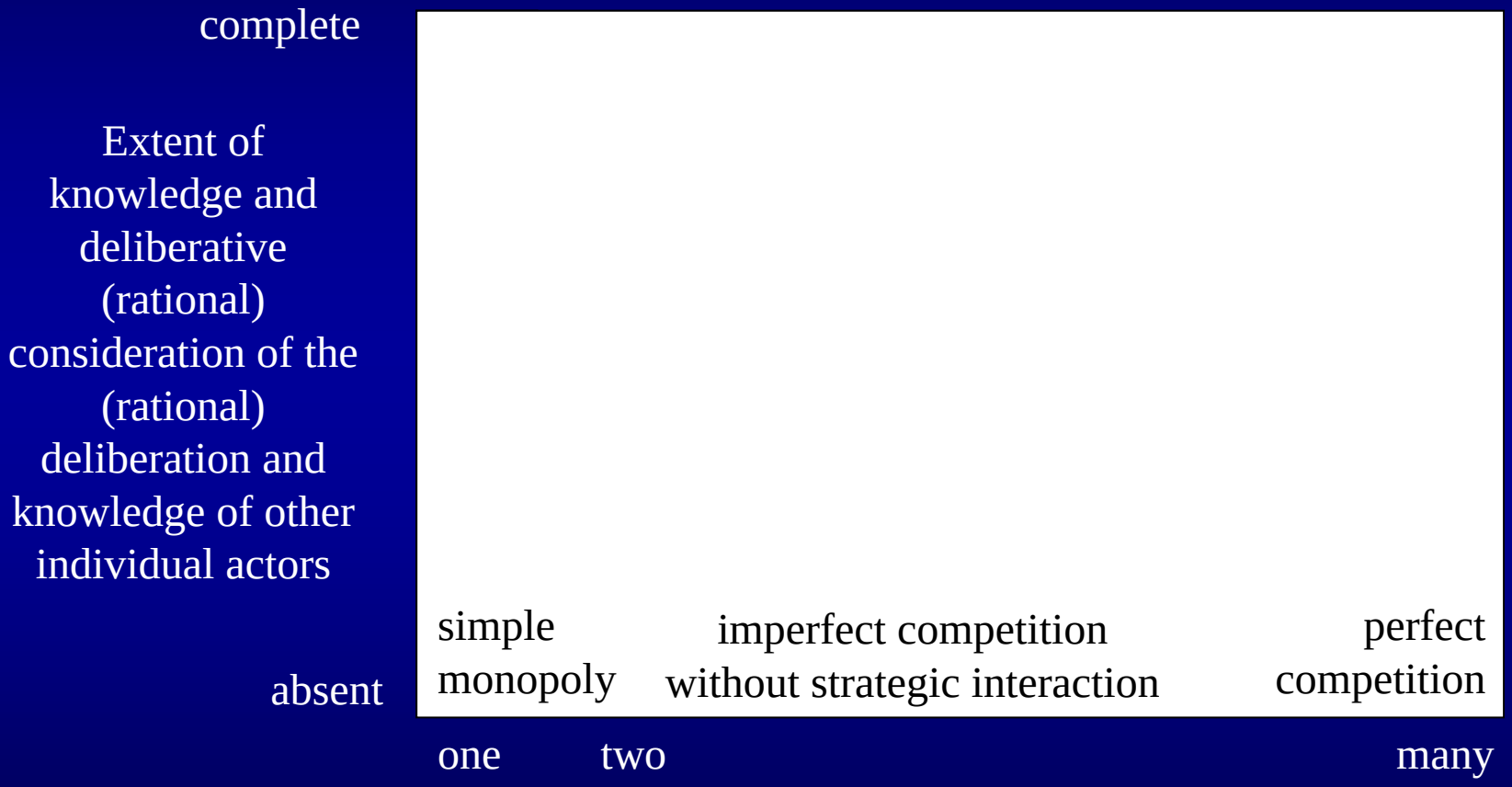
John Maynard Keynes

4. Learning to question assumptions

John Maynard Keynes:

"the master-economist ... must be mathematician, historian, statesman, philosopher .... He must understand symbols and speak in words. ... He must study the present in the light of the past for the purposes of the future. No part of a man's nature or his institutions must lie entirely outside his regard."

5. The hole in the middle



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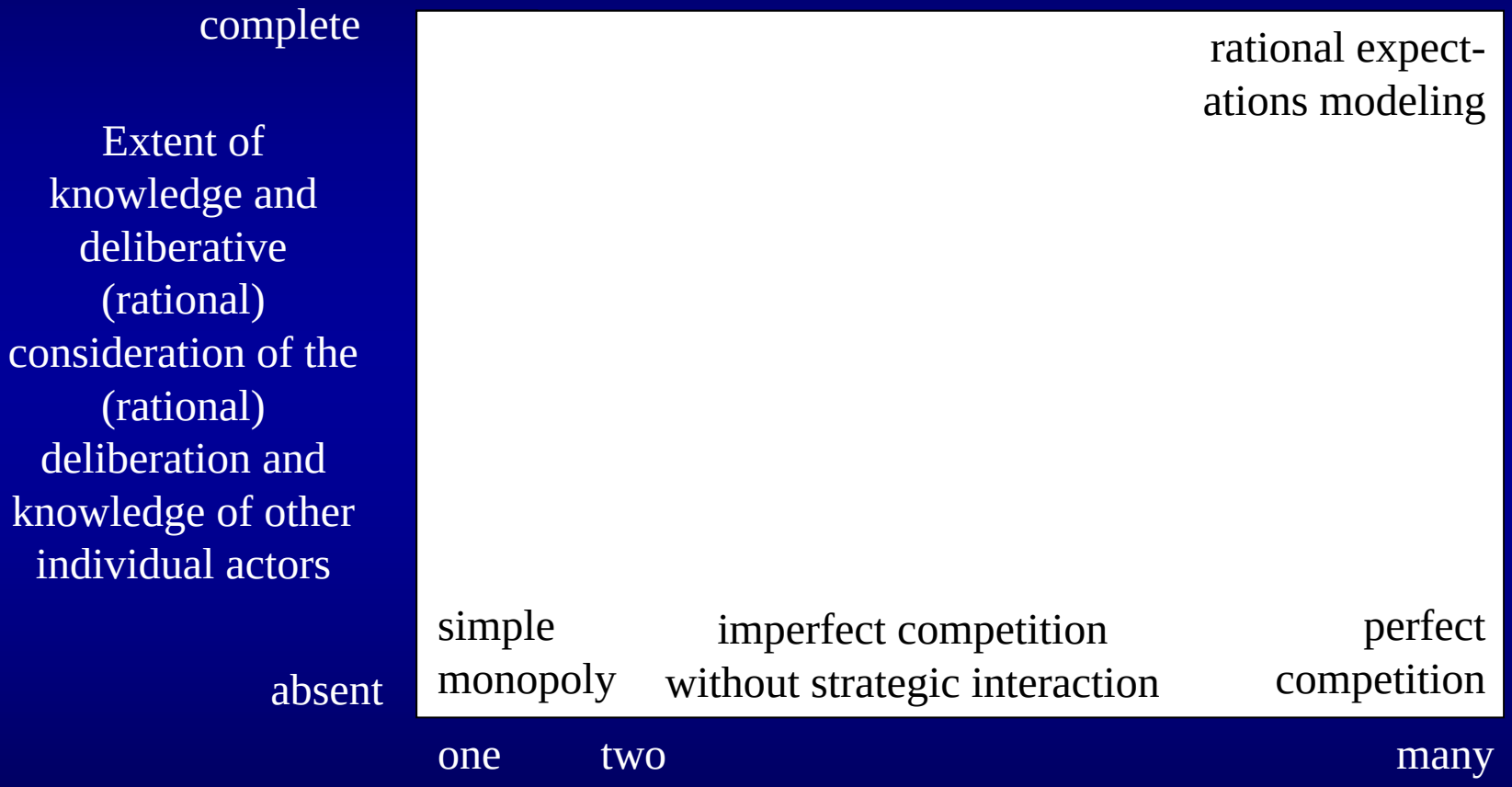

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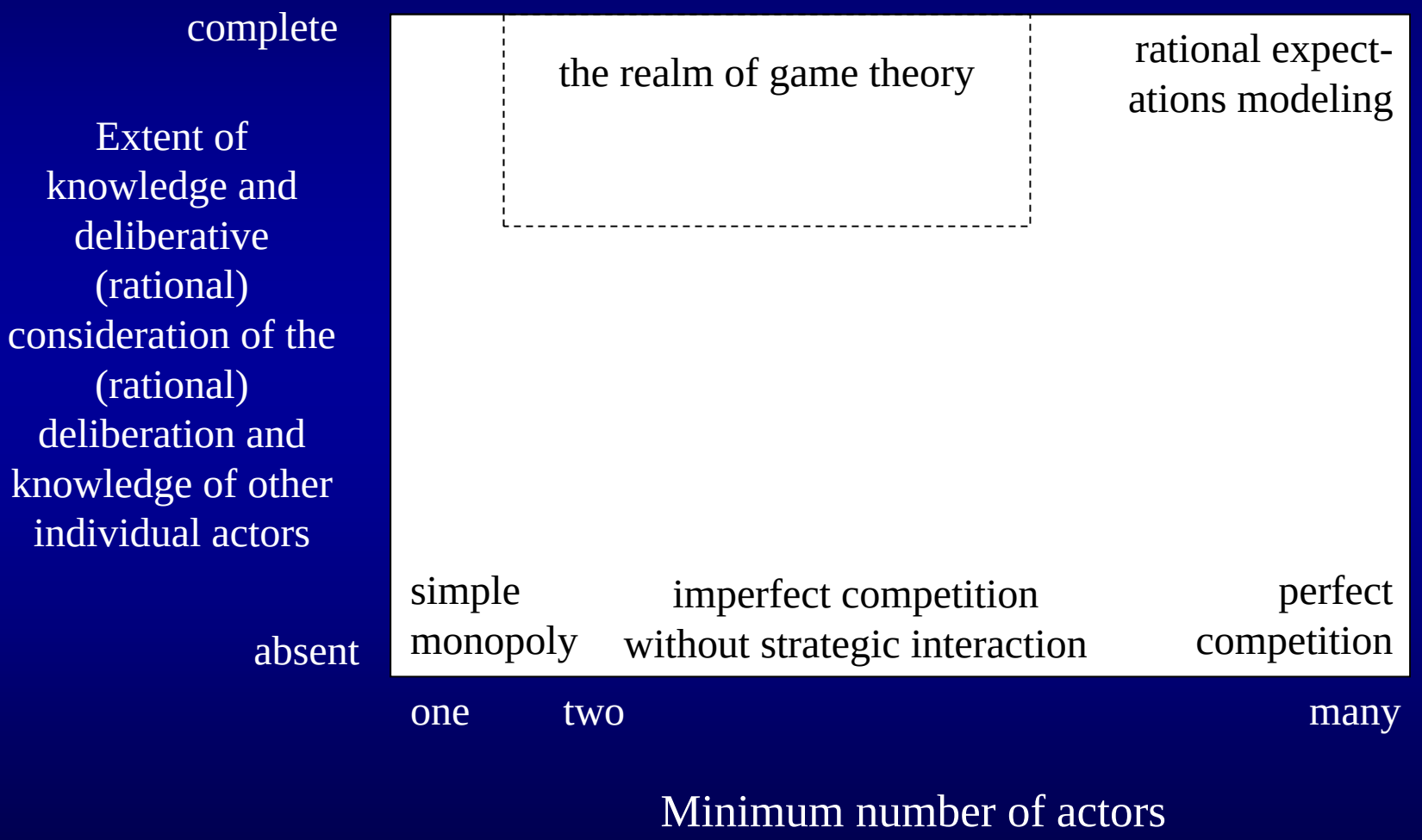

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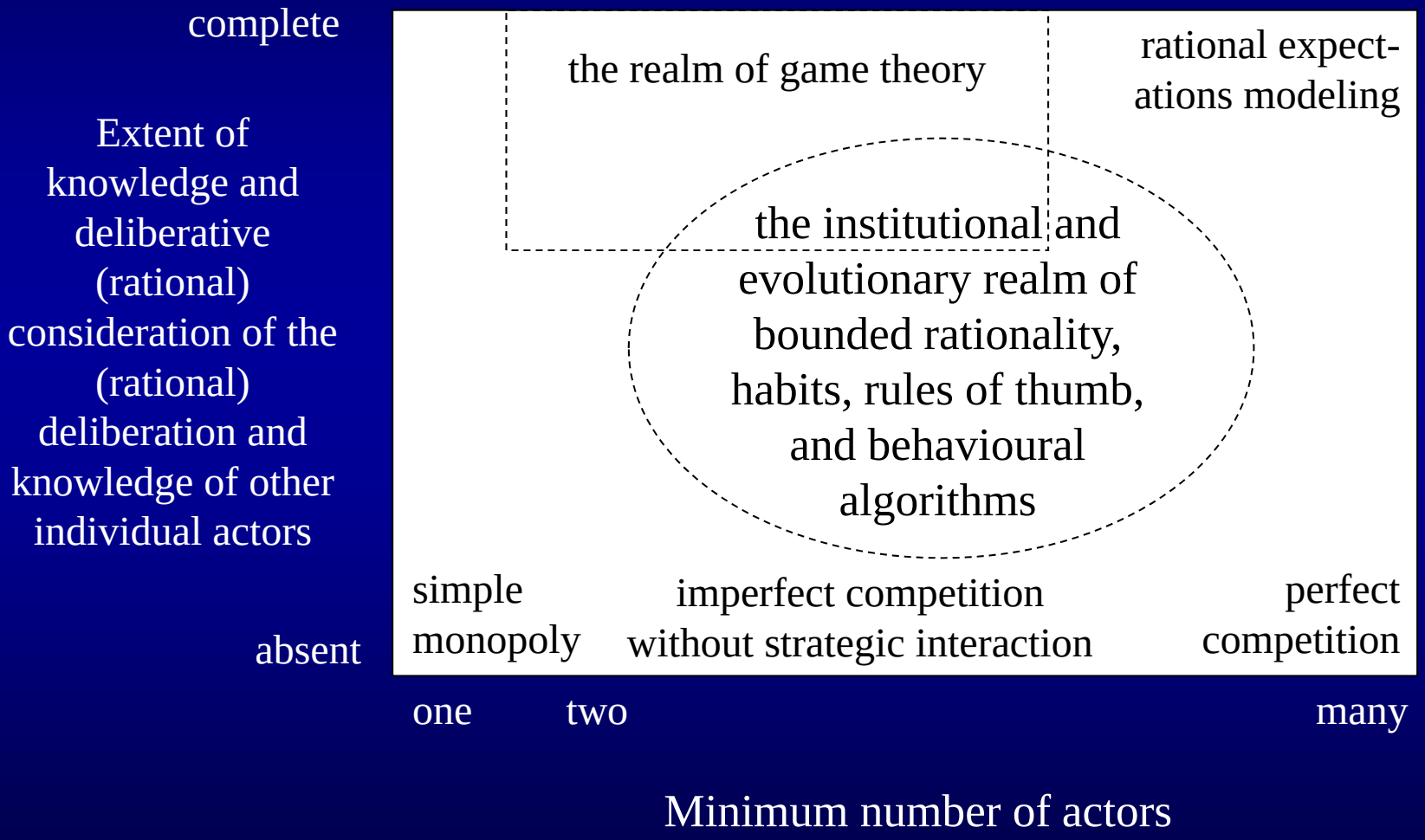


5. The hole in the middle

Frank Hahn (1991):

"theorising of the 'pure' sort will become ... less and less possible ... rather radical changes in questions and methods are required ... our successors have to be far less concerned with the general ... they will study particular histories and methods capable of dealing with the complexity of the particular ... less frequently for them the pleasures of theorems and proof. Instead the uncertain embrace of history and sociology and biology."

6. Conclusion

Models are important, but we must be aware of their limitations

=> philosophy + history of thought + economic history

Students should be trained to *question assumptions* and *adjudicate wisely* between *competing explanations*.

6. Conclusion

Do today's PhDs in Economics read these economists?

Adam Smith? **Karl Marx?**

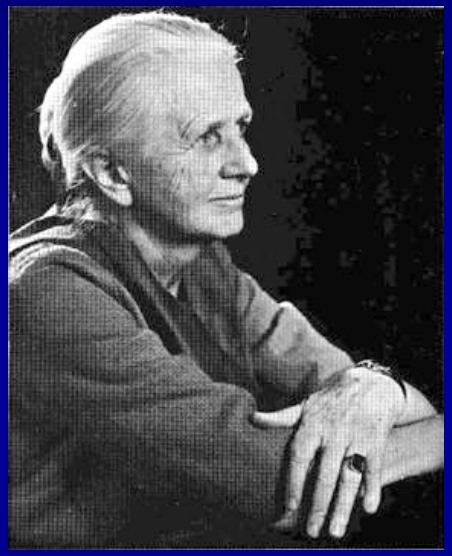
Alfred Marshall? **Thorstein Veblen?**

Joseph Schumpeter? **John Maynard Keynes?**

Frank Knight? **Friedrich Hayek?**

Gunnar Myrdal? **Herbert Simon?**

6. Conclusion



"The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists"

Joan Robinson